



September 9, 2002

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2<sup>nd</sup> Floor  
Boston, Massachusetts 02110

**RE: REPLY COMMENTS REGARDING THE INVESTIGATION INTO THE  
PROVISION OF DEFAULT SERVICE (D.T.E. 02-40)**

Dear Secretary Cottrell;

Established in 1915, Associated Industries of Massachusetts (A.I.M.) is a nonprofit, nonpartisan association of over 6,700 Massachusetts employers. A.I.M.'s mission is to promote the well-being of its members and their employees and the prosperity of the Commonwealth of Massachusetts by improving the economic climate of Massachusetts, proactively advocating fair and equitable public policy, and providing relevant, reliable information and excellent services. A.I.M. has long participated in energy and environmental issues before administrative agencies and appreciates the opportunity to submit comments in response to the Department's Order Opening an Investigation into the Provision of Default Service.

As one of the first states in the nation to initiate the restructuring of the century old highly regulated utility industry, Massachusetts is now just over half way through the initial seven year transition period. All customers in Massachusetts have benefited from restructuring with increased market efficiencies, mandated rate reductions, lower rates through competition, and by elimination of the risks of any stranded costs associated with power plant development. A.I.M. will not go into detail regarding the benefits of restructuring in these comments, but will distribute to the Department an A.I.M. Foundation white paper when it is published that will provide a substantive review of restructuring and the benefits it has delivered to all rate-payers in the Commonwealth. What we know to date is that restructuring is evolutionary and in fact may never be finished.

The expiration of standard offer in 2005 and the Department's opening of this docket on default service present an opportunity for the Department to review initiatives that have removed barriers to the competitive market and examine what modifications need to be made including changes to the procurement of default service in the next phase of restructuring. Before the Department can successfully charter a course going forward, A.I.M. supports the statement in the initial comments of the competitive suppliers requesting that the Department articulate a vision and a roadmap. The vision and leadership provided by the Department and the Legislature in the past provided the strong and unwaivering base that was needed for the continued development of a competitive retail market today.

**MISSION STATEMENT:** Established in 1915, Associated Industries of Massachusetts is the largest nonprofit, nonpartisan association of Massachusetts employers. A.I.M.'s mission is to promote the well-being of its members and their employees and the prosperity of the Commonwealth of Massachusetts by improving the economic climate of Massachusetts, proactively advocating fair and equitable public policy, providing relevant, reliable information and excellent services.

The order by the Department opening an investigation into the provision of default service has resulted in a number of proposals encompassing the full spectrum of changes from “fine tuning” to recommendations that propose the complete unbundling of the utility companies. A.I.M. has reviewed the proposals, and offers the following reactions to the Department regarding the procurement of default service.

A.I.M. agrees with a number of the commentors that the competitive market is developing at a different pace for different customer groups, and has yet to fully develop for smaller customers as it has for the larger commercial industrial (C & I) customers. Lacking the competitive choices of the larger C & I ‘s, A.I.M. supports NStar and other commentors that smaller C & I and residential customers should have the choice to remain with their utility company through default service. A.I.M. also recognizes that the default service for the larger customers, given the number of options this customer group has, should be procured on a shorter term basis to better reflect the real time price of power. Conversely, default service for smaller customers should be procured over a longer period of time (longer than presently permitted) to provide price stability, of course this may mean that absolute low cost may not be realized in order to achieve the desired price stability. We hasten to point out that choice for C & I is not only a function of demand size, but also knowledgeable buyers; as with any group this knowledge is not universal simply based on size or type of customer.

In examining the Division of Energy Resource (DOER) proposal for staggered procurements, A.I.M. supports this approach as a method of dealing with price volatility, as long as the blocks of power bid out at any one time do not become so small (under 150 MW) that prices are higher due to economies of scale. In other words, smaller yet staggered procurements are an implementation that does not result in artificially higher prices. A.I.M. does not support the recommendation of DOER that there be an “adder” to customers on default service. In an attempt to create a market, it simply raises prices for customers while providing no discernable benefit.

At this time, A.I.M. agrees with the Attorney General’s office, NStar and other commentors that mandatory assignment would not be in the best interest of customers. Mandatory assignment would not provide customers with choice, consumer protection and given events of recent months may even erode public confidence in the retail market. A.I.M. does support the auctioning of customers on a pilot basis, as long as participation is voluntary. To that end, as an educational tool, A.I.M. supports the concept outlined in the initial comments of PG & E Energy Group proposing a ballot be sent out in periodic intervals to customers listing the name and contact information of competitive suppliers along with the price that they would charge. Included with the prices and perhaps services offered by competitive suppliers, the prices charged by the utility for the same service should be listed at the same time so that customers can use the information to compare pricing and services and make a choice.

In the D.T.E. 02-40, the Department discusses the evaluation of default service policies in three areas. Included in the first area is the effects of locational marginal pricing (LMP). A.I.M. agrees with the Attorney General’s Office comments that there are a number of uncertainties with the implementation of LMP as part of standard market design and specifically what that impact will be. For that reason A.I.M. does not support the suggestion that LMP with some

customer groups should be socialized. The purpose, outlined in the initial comments of ISO-NE, is to send the appropriate price signals to all customers. As ISO-NE indicates, the wholesale and retail markets are intertwined and ...LMP will send price signals regarding where the delivery of energy is constrained by the transmission system and should, therefore impact customer behavior regarding the consumption of electricity in the wholesale and retail markets. Suggesting changes prior to the introduction of standard market design and LMP is premature. In order to properly evaluate the implications, the system needs to produce the appropriate signals to recognize the need for demand side management, load response and the potential use of distributed generation. These are all important and necessary components of a healthy competitive market.

A.I.M. appreciates the complexity of the issues surrounding this investigation and looks forward to participating in further discussions going forward.

Sincerely,

Angela M. O'Connor  
Vice President of Energy Programs